Notes to Financial Statements

1. Summary of Significant Accounting Policies

Presentation Basis

The financial statements of the Wisconsin Department of Employee Trust Funds have been prepared in conformity with generally accepted accounting principles for government units as prescribed by the Governmental Accounting Standards Board (GASB). The Department is not a general purpose government and does not present government-wide statements. The Department is included in the State of Wisconsin financial reporting entity.

The following funds have been used to account for the assets and operations of the Department:

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds

Wisconsin Retirement System (WRS): This fund is used to account for the collection of employee and employer contributions, investment of assets, and payment of retirement, disability and death benefits to former employees of the state and participating local governments in Wisconsin and their beneficiaries.

Deferred Compensation: This fund is used to account for the collection of voluntary payroll deferrals, investment of assets, and distributions to the employees of the state and participating local governments in Wisconsin and their beneficiaries. The assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries in compliance with the provisions of Internal Revenue Code Section 457(b).

Accumulated Sick Leave Conversion Credits (ASLCC): This fund is used to account for the collection of employer contributions, investment of assets, and purchase of post-retirement health insurance for retired employees of the state and their beneficiaries. The ASLCC benefit allows employees, at the time of their retirement, to convert the value of their unused sick leave accumulation into an account to be used to pay for post-retirement health insurance. The value of their account is increased by an employer match of part or all of their unused sick leave accumulation.

Life Insurance: This fund is used to account for the collection of employee and employer contributions, and the purchase of life insurance coverage for current and retired employees of the state and participating local governments in Wisconsin.

Employee Reimbursement Accounts: This fund is used to account for the collection of voluntary payroll deferrals, investment of assets, and reimbursement of qualifying medical and dependent care expenses for employees of the state in compliance with Internal Revenue Code (IRC) Section 125.

Commuter Benefits: This fund is used to account for the collection of voluntary payroll deferrals, investment of assets, and reimbursement of qualifying transportation expenses for employees of the state in compliance with IRC Section 132.

Investment Trust Fund

Milwaukee Retirement System: This fund is used to account for the receipt, investment and disbursement of funds from other public pension funds in Wisconsin.

Proprietary Funds

Enterprise Funds

Duty Disability: This fund is used to account for the collection of employer contributions, investment of assets, and payment of disability benefits to protective occupation participants in the WRS.

Long Term Disability Insurance: This fund is used to account for the collection of employer contributions, investment of assets, and payment of disability benefits to participants in the WRS.

Health Insurance: This fund is used to account for the collection of employee and employer contributions, the investment of assets, the purchase of health insurance coverage, and the payment of health insurance claims for current and retired employees of the state and participating local governments in Wisconsin.

Income Continuation Insurance: This fund is used to account for the collection of employee and employer contributions, the investment of assets, and the payment of disability benefits for employees of the state and participating local governments in Wisconsin.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal ongoing operations for these proprietary funds are collecting premiums, holding and investing those premiums, and using the accumulated premiums and investment income to pay benefits. Revenues and expenses not directly related to the principal ongoing operations are immaterial and have been classified as operating items.

Department-wide administrative expenses, capital assets and general fund activities are most closely associated with the WRS fund and have been blended with that fund for presentation.

All material intrafund transactions have been eliminated from fund financial statements. Interfund activity has not been eliminated.

Measurement Focus and Basis of Accounting

The financial statements of the Department have been prepared in accordance with generally accepted accounting principles (GAAP). WRS is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. All other funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Financial Accounting Standards Board statements effective after November 30, 1989, are not applied in accounting and reporting for proprietary operations.

Investments

The assets of the WRS and the Milwaukee Retirement System are invested in the Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT). The assets of the Income Continuation Insurance, Duty Disability, Long-Term Disability Insurance, and Accumulated Sick Leave Conversion programs are invested in the FRIT. Earnings are allocated between the WRS and other programs based on the average balance invested for each program. Earnings allocated to other programs are classified as Current Income Distributed on the *Statement of Changes in Net Assets*.

These programs' investment in the FRIT and VRIT are classified as Investment in Fixed Fund and Investment in Variable Fund on the *Statement of Net Assets*. Wisconsin Deferred Compensation Program assets are invested in participant selected privately managed equity and fixed income funds. All other benefit plan assets are invested in the State Investment Fund (SIF). Investments in the SIF are classified as Cash and Cash Equivalents on the *Statement of Net Assets*. See Note 3 for more information on investment valuation.

Actuarial Value of Assets

While investments are valued at fair value for financial statement presentation, an actuarial value of assets is used in evaluating the funded status of the benefit plans and in determining future contribution requirements. Actuarial value does not include any deferred market gains and losses which have not yet been distributed from the Transaction Amortization Account (TAA) or Market Recognition Account (MRA) to the program reserves. See Note 6 for more explanation of the TAA and MRA.

As of December 31, 2003, the actuarial value of reserves (in millions $) were as follows:

Benefit Plan	**Reserves at Fair Value**	**Deferred Market Gains/(Losses)**	**Reserves at Actuarial Value**
Wisconsin Retirement System	$ 62,125.7	$ (872.8)	$ 62,998.5
Income Continuation Insurance[1]	28.3	6.6	21.7
Duty Disability[1]	(189.7)	(13.9)	(175.8)
Long Term Disability Insurance[1]	196.1	(27.2)	223.3
Accumulated Sick Leave Conversion Credits[1]	(54.0)	(31.7)	(22.3)

[1] The Reserves at Fair Value and the Reserves at Actuarial Value for Income Continuation Insurance, Duty Disability, Long Term Disability Insurance, and Accumulated Sick Leave Conversion Credits have been reduced by the estimated future claims for the benefit plan.

Administrative Expenses

The administrative costs of all Department programs are financed by a separate appropriation and are allocated to the benefit plans in accordance with Wis. Stats. §40.04. The sources of funds for this appropriation are investment earnings and third-party reimbursement received from the various programs administered by the Department. Total administrative expenses for the year were $21.1 million.

The State of Wisconsin Investment Board (SWIB) incurs expenses related to investing the trust funds. As authorized by Wis. Stats. §25.187(2), these costs are charged directly to the investment income of each fund.

Capital Assets

Capital assets consist of office furniture and equipment. The Department capitalizes all furniture and equipment with a purchase price in excess of $5,000. Assets are depreciated on a composite basis over an estimated useful life of two years using the straight-line method of depreciation.

As of December 31, 2003, the total value of capital assets was $3,734,395, less accumulated depreciation of $3,673,076, for a net capital asset value of $61,319.

Long-Term Liabilities

Accumulated Sick Leave Conversion Credit: The accumulated sick leave conversion credit fund reports an actuarially determined liability for future benefits. The liability is determined using the frozen initial liability actuarial cost method and actuarial assumptions that include a 7.8% long-term rate of investment return and a 4.1% annual base salary increase.

During 2003, the liability changed as follows (in millions $):

Beginning Balance	$ 1,310
Plus: New Liabilities Recognized	381
Less: Benefits Paid	(66)
Ending Balance	$ 1,625

The portion estimated to be due within one year is $72.5 million.

Other Post Employment Benefits: The Group Life Insurance Program includes providing coverage to retirees 65 and up, and to those under 65 if they are eligible for a retirement annuity and have 20 years creditable service. Employees fund the post-retirement benefit until age 65. Benefits thereafter have been prefunded by employer premiums paid to the insurer during the employee's active career. The insurer determines premiums. The accrued liability and assets specifically related to these post employment benefits could not be determined. The program is administered in accordance with Chapter 40 of the Wisconsin Statutes.

Management's Discussion and Analysis (MD&A)

GASB Statement No. 34 requires that government-wide financial statements include an MD&A to provide an overview of the government's financial activities. This requirement does not extend to department financial statements. It was management's determination that this type of information could be better presented in other areas of the Department's Comprehensive Annual Financial Report, so an MD&A has not been included with the basic financial statements.

2. Accounting Changes

Generally Accepted Accounting Principles

There were no changes in generally accepted accounting principles that affected the Department's 2003 financial statements.

3. Deposits, Investments and Securities Lending Transactions

Valuation of Securities

The investments of the Fixed Retirement Investment Trust and Variable Retirement Investment Trust are valued at fair value, per Wis. Stats. §25.17(14). Monthly, the investments are adjusted to fair value, with unrealized gains and losses reflected in the *Statement of Changes in Net Assets* as Net Appreciation (Depreciation) in Fair Value of Investments.

Fair value information represents actual bid prices or the quoted yield equivalent at the end of the fiscal year for securities of comparable maturity, quality and type as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third party pricing methods are used, including appraisals, certifications, pricing models and other methods deemed acceptable by industry standards.

Mortgages are priced via a matrix pricing system. The traditional discounted cash flow methodology is employed, where discounted rates, based on current yields in the base Treasury, consider factors such as coupon rates, term to maturity, Moody's and S&P ratings, and sector/industry information.

Private placements are priced using a multi-tiered approach. The method prices each holding based on the best available information using the following hierarchy of pricing sources:

1. Custodian supplied prices for assets that are in the Lehman Aggregate Bond Index.
2. Prices provided by a contracted third party with expertise in the bond market.
3. Modeled prices utilizing CMS BondEdge where spreads are supplied by the same contracted third party.

In a few instances, securities cannot be priced by one of the above three sources. In these circumstances, the investment is priced using an alternative bond index price, or if no independent quotation exists, the investment is priced by State of Wisconsin Investment Board (SWIB) management, usually at cost.

Limited partnerships' fair value is estimated based on periodic reports from the limited partnerships' management. Annually, the reports are audited by independent auditors.

The basis for valuing real estate is appraisals, which are prepared once every three years. In years when appraisals are not performed, the asset managers are responsible for providing market valuations.

Private equity holdings are valued at cost since no independent quotation is available to price these securities, unless a trigger event occurs. SWIB investment staff complete quarterly company analyses to assess the value of private equity holdings. Company, industry and geopolitical conditions are considered when establishing the occurrence of a trigger event which may require a change in price of the private equity holding.

All derivative financial instruments are reported at fair value in the *Statement of Net Assets*. The instruments are marked to fair value monthly, with valuation changes recognized in income, regardless of whether the instruments are held for hedging or trading purposes. Gains and losses are recorded in the *Statement of Changes in Net Assets* as Net Appreciation (Depreciation) in Fair Value of Investments during the period the instruments are held and when the instrument is sold or expires. The nature and use of derivative instruments is discussed later in this note. For the Deferred Compensation Plan, investments in fixed earnings accounts are valued at current book values, which approximates fair value, while variable earnings investments are presented at fair values based on published quotations on December 31, 2003. Annuity reserves are actuarially valued.

Deposits, Investments, and Securities Lending Transactions

Deposits: GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed. Bank deposits as of December 31, 2003, totaled $50,514,959. Federal depository insurance covers $780,395 of the deposits. The remaining deposits, mainly foreign currencies, are uninsured. In addition, SWIB held non-negotiable short-term certificates of deposit. The fair value of these certificates of deposit was $39.9 million, all of which was uncollateralized.

Investments: The following tables present the investments held by SWIB as of December 31, 2003, categorized to give an indication of the level of risk assumed by SWIB at year-end. The categories are:

1. Insured or registered, or securities that are held by SWIB in SWIB's name or its agent in SWIB's name.
2. Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in SWIB's name.
3. Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in SWIB's name.

Fixed Fund
Category (in millions)

	"1"	**"2"**	**"3"**	**Fair Value**
Stocks	$13,786.3			$13,786.3
Fixed Income	7,712.4			7,712.4
Repurchase Agreements	951.4			951.4
Bankers Acceptances	139.9			139.9
Totals	**$22,590.0**	**$0.0**	**$0.0**	**$22,590.0**
Investments Not Subject to Categorization:				
Limited Partnerships				2,702.1
Pooled Multi Asset Fund				328.2
Pooled Equity Funds				21,609.0
Pooled Fixed Income Funds				6,367.2
Mortgages				612.4
Real Estate Owned				428.3
State Investment Fund				726.4
Pooled Cash and Cash Equivalents				748.2
Investments held by broker dealers under securities loans				
Fixed Income				2,283.7
Equities				976.7
Securities Lending Cash Collateral Pooled Investments				523.4
Total				**$59,895.6**

Variable Fund
Category (in millions)

	"1"	"2"	"3"	Fair Value
Stocks	$2,792.2			$2,792.2
Fixed Income	82.3			82.3
Repurchase Agreements	44.1			44.1
Bankers Acceptances	7.1			7.1
Totals	**$2,925.7**	**$0.0**	**$0.0**	**$2,925.7**
Investments Not Subject to Categorization:				
Pooled Equity Funds				2,876.3
State Investment Fund				93.5
Pooled Cash and Cash Equivalents				3.9
Investments held by broker dealers under securities loans:				
Equities				154.7
Securities lending cash collateral pooled investments				26.6
Total				**$6,080.7**

All investments of the Deferred Compensation Program are in externally managed investment pools and have not been included in the schedules above. As of December 31, 2003, the investments included (in millions $):

Variable Earnings (Mutual Fund) Investments	$1,074.1
Insured Fixed Earnings Investments	31.7
Fixed Earnings Investment	236.5
Allocated Insurance Contracts	5.6
Other	0.2
Total	**$1,348.1**

Securities Lending Transactions: State statutes and board policies permit SWIB to use investments of the two funds to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. SWIB's securities custodian is an agent in lending the funds' domestic and international securities for collateral of 102% and 105%, respectively, of the loaned securities' fair value. The cash collateral is reinvested by the lending agent or its affiliate in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

Securities on loan at December 31, 2003, are presented as unclassified in the preceding schedule of custodial risk. At year end, SWIB had no credit risk exposure to borrowers because the amounts SWIB owed the borrowers exceeded the amounts the borrowers owed SWIB. The contract with the lending agent requires them to indemnify SWIB if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand by SWIB or the borrower, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments with a weighted average maturity of 31 days.

The ability to pledge or sell collateral securities cannot be made without a borrower default. In addition, no restrictions on the amount of loans exist. SWIB also earns securities lending income as part of total net earnings from the investment in several commingled funds. These earnings are automatically reinvested in the commingled fund and, as a result, are combined with gains and losses for these funds and reported in the *Statement of Changes in Net Assets* as Net Appreciation (Depreciation) in the Fair Value of Investments. The securities lending income earned on the commingled funds totaled $10.2 million for the fiscal year ended December 31, 2003.

Derivative Financial Instruments

Foreign Currency Forwards

Foreign currency forwards are non-standardized contracts with an obligation to exchange one currency for another currency at a specified rate on a given date. Generally foreign currency forwards are held to hedge foreign exchange risk. Market risk is controlled by holding substantially offsetting purchase and sell positions. Additionally, counterparty risk is mitigated by limiting the counterparty to a bank or broker-dealer with a credit rating of "A" or better.

On December 31, 2003, the fair value of foreign currency forward contract assets totaled $1.782 billion, while the liabilities totaled $1.785 billion.

Financial Futures Contracts

A financial futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, SWIB is required to deposit with the broker, in SWIB's name, an amount of U.S. government obligations in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Net Assets. Losses may arise from future changes in the value of the underlying instrument, or if the counterparties do not perform under the terms of the contract.

Investment guidelines allow interest rate exposure management only through the use of exchange-traded interest rate instruments. As of December 31, 2003, SWIB was invested in exchange-traded interest rate futures contracts with a net exposure totaling $62.6 million.

In addition, investment guidelines allow for the use of exchange-traded S&P 500 Equity Index futures when entered into for the purpose of equitizing cash holdings. During 2003, SWIB had invested in S&P index futures contracts, although none were held at calendar year end.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMO) are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or traunches in accordance with each CMO's established payment order. Some CMO's traunches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in interest payments, thus an increase in fair value of the security. CMOs are held to maximize yields and in part to hedge against a rise in interest rates. SWIB holds only high quality, senior traunches, resulting in minimal risks of default and prepayment.

SWIB held CMOs during 2003, although none were held at December 31, 2003.

Principal Only Strips

Principal only strips are securities that derive cash flow from the payment of principal on underlying debt securities. SWIB held principal only strips for yield enhancing purposes during 2003, although none were held at December 31, 2003. The majority of the underlying securities have been United States Treasury obligations, therefore the credit risk was low. On the other hand, principal only strips are more volatile in terms of pricing, and thus the market risk was higher than traditional United States Treasury obligations.

Credit-Linked Trust Certificates

Credit-linked trust certificates are exchange-traded securities, created through a Special Purpose Company, or trust. Proceeds from the sale of the certificates are invested in AAA rated securities, then lent out under a securities lending agreement. The trust also enters into a credit default swap that references 100 high yield corporate bonds. The trust pays a variable coupon and receives a fixed coupon on the notional value during the life of the note. If the issuer of one or more of the 100 high yield corporate bond defaults, the trust will receive the current market value of the defaulted asset and the notional value will be reduced, lessening future interest earnings.

By investing in credit-linked trust certificates, SWIB gains immediate, diversified exposure to the high yield fixed income market. For taking on the risk associated with the 100 high yield corporate bonds, SWIB earns a premium rate of return. Investment in these certificates involves risk of loss from credit downgrades, illiquidity, and counterparty risk. Valuation of this security is calculated by the party marketing the security. At December 31, 2003, SWIB was invested in credit-linked trust certificates totaling $88.6 million.

SWIB may indirectly hold derivatives through investments in limited partnerships and commingled funds. Indirectly held derivatives have not been included in the above figures.

Summary Information

The following schedule provides summary information by investment classification for the Fixed and Variable Retirement Trust Funds as of December 31, 2003.

Fixed Fund

Classification	Interest / Coupon Rate	Maturity Dates	Cost (millions $)	Fair Value (millions $)
Fixed Income	Variable and 0% to 24%	1/04- 11/49	$ 13,211.7	$14,633.2
Common and Preferred Stock	N/A	N/A	30,619.5	36,372.0
Limited Partnerships	N/A	N/A	2,850.9	2,702.1
Mortgages	6.77% to 12.25%	8/04- 6/22	544.2	612.4
Real Estate	N/A	N/A	338.1	428.3
Multi Asset	N/A	N/A	250.0	328.2
Total Investments			$47,814.4	$55,076.2

Variable Fund

Classification	Interest / Coupon Rate	Maturity Dates	Cost (millions $)	Fair Value (millions $)
Fixed Income	10.0%	10/03	$ 0.0	$ 0.0
Common and Preferred Stock	N/A	N/A	4,997.1	5,823.3
Total Investments			$4,997.1	$5,823.3

Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of December 31, 2003, unfunded capital commitments totaled $1.3 billion.

In addition, SWIB had two outstanding commitments to loan totaling $653,000 on December 31, 2003.

4. Description of the Wisconsin Retirement System

The Wisconsin Retirement System (WRS) is a cost-sharing multiple employer public employee retirement system established and administered by the State of Wisconsin to provide pension benefits for state and local government public employees. The system is administered in accordance with Chapter 40 of the Wisconsin Statutes.

WRS Employers

The WRS is open to all public employers in Wisconsin. Participation is optional, except that participation is mandatory for school districts with respect to teachers, some municipalities with respect to police and firefighters, and all counties except Milwaukee County. As of December 31, 2003, the number of participating employers was:

State Agencies	61
Cities	153
Counties	71
4th Class Cities	34
Villages	227
Towns	203
School Districts	426
CESAs*	12
WTCS Districts**	16
Special Districts	177
Total Employers	**1,380**

*Cooperative Educational Service Agencies
** Wisconsin Technical College System

WRS Membership

Any employee of a participating employer who is expected to work at least 600 hours per year must be covered by the WRS.

As of December 31, 2003, the WRS membership consisted of:

Current Employees:	
General / Teachers	242,189
Elected / Executive / Judges	1,485
Protective with Social Security	18,762
Protective without Social Security	2,714
Total Current Employees	**265,150**
Terminated Participants	**125,293**
Retirees and Beneficiaries	
Currently Receiving Benefits:	
Retirement Annuities	114,038
Disability Annuities	6,272
Death Beneficiary Annuities	1,272
Total Annuitants	121,582
Total Participants	**512,025**

WRS Benefits

The WRS provides retirement benefits as well as death and disability benefits. Participants in the system prior to January 1, 1990, were fully vested at the time they met participation requirements. For participants entering the system between December 31, 1989, and April 23, 1998, creditable service in each of five years was required for vesting. 1997 Wis. Act 69 provided for all active participants in the system on or after April 24, 1998, to be fully vested.

Employees who retire at or after age 65 (55 for protective occupations and 62 for elected officials and executive service retirement plan participants) are entitled to a retirement benefit based on a formula factor, their final average earnings and creditable service. Formula factors are shown in the table shown in the next column.

Employment Category	Service Before 1/1/2000	Service After 12/31/1999
General/ Teachers	1.765%	1.6%
Executive and Elected	2.165	2.0
Protective with Social Security	2.165	2.0
Protective without Social Security	2.665	2.5

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will instead be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions with interest if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit, or they may leave contributions on deposit and defer application until eligible to receive a retirement benefit.

Post-Retirement Adjustments

The Employee Trust Funds Board may periodically increase annuity payments from the retirement system when investment income credited to the reserves, together with other actuarial experience factors, creates surplus reserves as determined by the actuary. Annuity increases are not based on cost of living or other similar factors.

The fixed dividends and variable adjustments granted during recent years are as follows:

Year	Fixed Dividend	Variable Adjustment
1994	4.9%	11%
1995	2.8	(4)
1996	5.6	19
1997	6.6	14
1998	7.7	18
1999	7.2	12
2000	17.1	21
2001	5.7	(11)
2002	3.3	(14)
2003	0.0	(27)

Actuarial Liabilities

The Wisconsin Retirement System's (WRS) unfunded actuarial accrued liability (UAAL) is amortized as a level percentage of payroll over a 40-year period beginning January 1, 1990. As of December 31, 2003, 26 years remain on the amortization schedule. Interest is assessed on the outstanding liability at year-end at the assumed earnings rate. The level-percentage-of-payroll amortization method results in a relatively lower dollar contribution in earlier years than in later years when payrolls have increased. During the early years of the amortization period, payments made are less than annual interest assessments, resulting in an increase in the liability. As payrolls increase annually, prior service payments increase proportionally until they exceed annual interest and finally fully liquidate the liability at the end of 40 years. State law requires the accrued retirement cost to be funded.

As of December 31, 2003, the UAAL was $499 million. The Prior Service Contributions Receivable presented on the *Statement of Net Assets* includes the UAAL plus payments received in January 2004, which reduce the UAAL for actuarial purposes, but not for generally accepted accounting principles reporting.

Variable Retirement Option

Prior to 1980, WRS participants had an option to have one-half of their required contributions and matching employer contributions invested in the Variable Retirement Investment Trust. Retirement benefits were adjusted for the difference between the investment experience of the Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT). The VRIT was closed to new membership after April 30, 1980. Provisions for allowing members to withdraw from the VRIT were added with the passage of Ch. 221, Laws of 1979. 1999 Wisconsin Act 11 reopened the VRIT for existing and future participants effective January 1, 2001. As of December 31, 2003, a total of 75,857 active and inactive participants and 29,496 annuitants participated in the VRIT.

Municipal Police and Firefighters Pension Group

As of March 31, 1978, administration of certain local funds for police officers and firefighters was assumed by the Wisconsin Retirement Fund. This included approximately 2,000 members.

As of December 31, 2003, some 540 annuitants or their beneficiaries remained in the system. This group was closed to new members after January 1, 1948.

The liability for retirement benefits for these annuitants is funded by the employers as benefit payments are made. Annuity reserves for police and firefighter annuities are established by a transfer from the employer accumulation reserve at the time the annuity is approved. Earnings on these reserves are used to fund dividends on the same basis as for WRS annuitants. The unfunded liability for these annuitants as of December 31, 2003, was $21.8 million.

Annuity Supplement General Fund

As authorized under 1985 Wis. Stats. § 40.27 (1), the General Fund provides certain supplemental annuity benefits to annuitants receiving a continuing annuity on or before September 1974. The benefit is subject to continuation of the appropriation by the legislature. The Department serves as a clearing agent for its payment. Total supplemental annuity benefits paid were $3.2 million in 2003.

5. Contributions Required and Made

Required Contributions

Employer contribution rates are determined by the "entry age normal with a frozen initial liability" actuarial method. This is a "level contribution" actuarial method intended to keep employer and employee contribution rates at a level percentage of payroll over the years. This method determines the amount of contributions necessary to fund: 1) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year plus actuarial gains or losses arising from the difference between actual and assumed experience; and 2) the prior service cost, which represents the estimated amount necessary to pay for unfunded benefits earned prior to the employer participating in the WRS and the past service cost of benefit improvements.

Contribution requirements for 2003 were determined by the December 31, 2001, actuarial valuation. Significant actuarial assumptions used in the valuation include:

- a rate of return on the investment of present and future assets of 8.0% per year compounded annually;
- projected salary increases of 4.5% per year compounded annually, attributable to inflation;
- additional projected salary increases ranging from 0.1% to 6.0% per year, depending on age and type of employment attributable to seniority/merit; and
- 2.86% annual post-retirement benefit increases.

Employee contributions are deducted from the employee's salary and remitted to the Department by the participating employer. Part or all of the employee contributions may be paid by the employer on behalf of the employee.

Employees also make an actuarially determined benefit adjustment contribution. The benefit adjustment contribution is treated as an employer contribution for benefit purposes and is not included in separation benefits, death benefits, or money purchase annuities. Part or all of the benefit adjustment contribution may be paid by the employer on behalf of the employee.

Effective January 1, 1990, any changes in the contribution rate must be split equally between the employee and the employer.

Contribution rates in effect during 2003 by employment category are listed on the next page.

2003 Contribution Rates by Employment Category:

	Employer Current	Employer Prior*	Employee	Benefit Adjustment Contribution
Elected Officials, State Executive Retirement Plan	8.1%	1.0%	2.6%	0.0%
Protective Occupation with Social Security	7.1%	0.6%	4.0%	0.0%
Protective Occupation without Social Security	9.8%	1.5%	2.4%	0.0%
General and Teachers	4.0%	1.2%	5.0%	0.4%

* The employer prior service contribution rate is a weighted average of individual employer rates.

Contributions required and made during 2003 were:

	Contributions Required		Contributions Made	
	Contributions (millions $)	Percentage of Payroll	Contributions (millions $)	Percentage of Payroll
Employer Current Service	462.7	4.41%	462.7	4.41%
Employer Prior Service*	54.2	0.52%	1,265.4	12.05%
Employee Required	513.8	4.89%	513.8	4.89%
Benefit Adjustment Contribution	37.7	0.36%	37.7	0.36%

* Employer prior service contributions are recorded on the *Statement of Net Assets* as a reduction in the Prior Service Contribution Receivable. Contributions Made include the proceeds of Pension Obligation Bonds issued by the State of Wisconsin and other participating employers. See Note 7 for more information on Pension Obligation Bonds.

Employers also contributed $3.6 million in reimbursement for benefits paid under the 62.13 Police and Firefighters Pension Program.

Employee and Employer Additional Contributions

Contributions may be made to the retirement system in addition to the required contributions by employees and/or employers. These contributions are held in separate reserve accounts and are subject to certain restrictions as to amount, form of benefit payments, tax status, etc.

6. Reserves

The following reserves have been established to reflect legal restrictions on the use of pension trust funds.

Employee Accumulation Reserve

As authorized by Wis. Stats. §40.04 (4), this reserve includes all required and voluntary employee contributions, including contributions made by the employer on behalf of the employee. This reserve may only be used to pay lump sum benefits, or transfers to the Annuity Reserve to fund annuities. All legal restrictions on use of this reserve were met during the year. The Employee Accumulation Reserve is fully funded. Employee Accumulation Reserve balances are listed on the next page.

Employee Accumulation Reserve balances (in millions $) as of December 31, 2003 were:

	Fixed	Variable	Total
Employee Required	$ 13,288.3	$ 1,075.6	$ 14,363.9
Employee Additional	111.5	27.8	139.3
Total	$ 13,399.8	$ 1,103.4	$ 14,503.2

Employer Accumulation Reserve

As authorized by Wis. Stats. §40.04 (5), this reserve includes all required employer contributions, including contributions for amortization of the unfunded accrued actuarial liability. This reserve may only be used to pay lump sum benefits, or be transferred to the Annuity Reserve to fund annuities. All legal restrictions on use of this reserve were met during the year. The Employer Accumulation Reserve is 99.2% funded.

Employer Accumulation Reserve balances (in millions $) as of December 31, 2003, were:

	Fixed	Variable	Police & Firefighters	Total
Employer Accumulation	$ 18,706.4	$ 1,075.6	($ 5.4)	$19,776.6
Less: UAAL	0.0	0.0	21.8	21.8
Net Employer Accumulation	$ 18,706.4	$ 1,075.6	($ 27.2)	$19,754.8

Annuity Reserve

As authorized by Wis. Stats. §40.04 (6), this reserve includes the present value of all annuities. The present value of new annuities are transferred from the Employee Accumulation Reserve and the Employer Accumulation Reserve to the Annuity Reserve. This reserve may only be used for the payment of annuities and death benefits to annuitants. All legal restrictions on use of this reserve were met during the year. The Annuity Reserve is fully funded.

Annuity Reserve balances (in millions $) as of December 31, 2003, were:

	Fixed	Variable	Police & Firefighters	Total
Annuity Reserve	$ 24,947.7	$ 3,626.3	$ 121.6	$ 28,695.6

Market Recognition Account

As authorized by Wis. Stats. §40.04 (3), this reserve is used to smooth the flow of investment income into the Employee, Employer and Annuity Reserves and other benefit plans invested in the Fixed Retirement Investment Trust (FRIT). Under the Market Recognition Account (MRA), all investment income, including realized and unrealized market gains and losses, is deposited into the MRA. At year-end, income equal to the assumed earnings rate is recognized. Any surplus or shortfall in earnings is recognized equally over five years.

Prior to 1999 Wisconsin Act 11, Wisconsin statutes required that a Transaction Amortization Account (TAA) be maintained to smooth the impact of market price volatility on the benefit plans invested in the FRIT. All realized and unrealized gains and losses in fair value of investments in the FRIT were recorded in the TAA as they were incurred. Twenty percent of the TAA balance was transferred to, and recognized as, current investment income in the various program reserves of the FRIT at the end of each year. 1999 Wisconsin Act 11 froze the balance of the TAA as of December 31, 1999. The balance of $9.9 billion is being recognized in five equal amounts of $1.98 billion beginning in 2000 and ending in 2004.

Year-end balances in the TAA and the MRA (in millions $) for the last five years after annual distributions were as follows:

	MRA	TAA	Total
December 31, 1999	0	9,910	9,910
December 31, 2000	(3,299)	7,928	4,629
December 31, 2001	(6,742)	5,946	(796)
December 31, 2002	(11,908)	3,964	(7,944)
December 31, 2003	(2,921)	1,982	(939)

7. Contingencies, Unusual Events And Subsequent Events

Milwaukee Special Death Benefit

Effective January 1, 2003, the Group Insurance Board transferred administration of the Milwaukee Special Death Benefit plan to the Minnesota Life Insurance Company. In exchange for net plan assets of $983 million, Minnesota Life Insurance Company assumed all responsibility and liability for providing a fixed life insurance benefit to the remaining participants in this plan.

Since the Department is no longer responsible for the assets and liabilities for this benefit plan, it is no longer presented in the Department's financial statements.

Pension Obligation Bonds

During 2003, the State of Wisconsin issued Pension Obligation Bonds to finance payment of its unfunded actuarial accrued liability (UAAL) in the WRS and the Accumulated Sick Leave Conversion Credits (ASLCC) Program.

On December 18, 2003, the state paid to the Department $782.4 million to be applied to the UAAL for the ASLCC benefit plan. As a result of this payment, the state overpaid its UAAL by $20.6 million and that amount was credited to the state. The net contribution of $761.8 million is reported as an Employer Contribution on the *ASLCC Statement of Changes in Net Assets*.

On January 29, 2004, the state paid to the Department $705.1 million to be applied to the unfunded actuarial accrued liability for the WRS. As a result of this payment, the state overpaid its UAAL by $38.9 million and that amount was credited to the state. Since the payment was received after December 31, there is no effect on the 2003 financial statements.

In addition to the state, over 250 local employers also made voluntary payments totaling over $500 million to reduce their UAAL in the WRS. Those payments received prior to

December 31 are reported as a reduction in the Prior Service Contributions Receivable on the *WRS Statement of Net Assets*.

8. Public Entity Risk Pools

The Department operates four public entity risk pools: health insurance, income continuation insurance, protective occupation duty disability insurance (Duty Disability), and Long-Term Disability Insurance (LTDI). In accordance with Governmental Accounting Standards Board Statement 10, these funds are accounted for as enterprise funds.

Health Insurance

The Health Insurance Fund offers group health insurance for current and retired employees of the state government and of participating local public employers. All public employers in the state are eligible to participate. The State of Wisconsin, plus 305 local employers, participated during the year. The fund includes both a self-insured fee-for-service plan as well as various prepaid plans, primarily health maintenance organizations.

Following is a summary of the activity and changes in net assets for these individual risk pools within the Health Insurance Fund during 2003 (in thousands):

	State	Local	Local Annuitants	Total
Investment Income	$ 802	$ 45	$ 0	$ 847
Insurance Premiums	719,653	105,152	768	825,573
Miscellaneous Income	43	6	0	49
Total Revenues	**720,498**	**105,203**	**768**	**826,469**
Benefits Expense	706,523	106,233	761	813,517
Carrier Administration	2,312	135	0	2,447
ETF Administration	2,900	379	13	3,292
Total Expenses	**711,735**	**106,747**	**774**	**819,256**
Net Income	8,763	(1,544)	(6)	7,213
January 1, 2003 Net Assets	**19,324**	**2,547**	**23**	**21,894**
December 31, 2003 Net Assets	**$ 28,087**	**$ 1,003**	**$ 17**	**$ 29,107**

Income Continuation Insurance

The Income Continuation Insurance Fund offers both long-term and short-term disability benefits (up to 75 % of gross salary) for current employees of the state government and of participating local public employers. All public employers in the state are eligible to participate. The state, plus 147 local employers, currently participate. The plan is self-insured. Following is a summary of the activity and changes in net assets for these individual risk pools within the Income Continuation Insurance Fund during 2003 (in thousands $):

	State	Local	Total
Investment Income	$ 12,223	$ 2,679	$ 14,902
Contributions	9,295	1,236	10,531
Miscellaneous	83	2	85
Total Revenues	**21,601**	**3,917**	**25,518**
Benefit Expense	9,969	159	10,128
Carrier Administration	1,354	64	1,418
ETF Administration	463	43	506
Total Expenses	**11,786**	**266**	**12,052**
Net Income	9,815	3,651	13,466
January 1, 2003 Net Assets	**$ 7,362**	**$ 7,435**	**14,797**
December 31, 2003 Net Assets	**$ 17,177**	**$11,086**	**$ 28,263**

Duty Disability

The Duty Disability Fund offers special disability insurance for state and local WRS participants in protective occupations. Participation in the program is mandatory for all WRS employers with protective occupation employees. The state and 476 local employers currently participate. The plan is self-insured, and risk is shared between the state and local portions of the plan.

The Duty Disability Program is intended to compensate WRS protective category employees for duty-related disabilities. Benefits are payable for duty-related injuries or diseases that are likely to be permanent and that cause the employee to retire, accept reduced pay or a light-duty assignment, or that impair the employee's promotional opportunities.

All contributions are employer-paid. Contributions are based on a graduated, experience-rated formula. During 2003, contribution rates ranged from 1.9 % to 6.6 % of salaries based on employer experience.

During the program's initial years, contributions did not keep pace with benefits, resulting in both an accounting and a cash deficit. The Employee Trust Funds Board has increased contribution rates and has implemented an experience-rated system to encourage employers to oppose frivolous claims against the program. After 1987 legislation (Wis. Act 363, Laws of 1987) broadened the Department's authority for experience-rated contribution collection and modified the benefit structure, a new rate structure was enacted, which retired the cash deficit in 1993. The accounting deficit is being amortized over an eighteen-year period beginning in 2004.

In May 1997, the Wisconsin Supreme Court issued its decision in the *Coutts vs. Wisconsin Retirement Board* case. The Court affirmed the Court of Appeals decision that Wis. Stats.§40.65 does not authorize the reduction of Duty Disability benefits by worker's compensation awards paid prior to the duty disability benefits effective date, and that duty disability benefits are not retroactive. Benefit corrections made pursuant to the *Coutts* decision are not expected to have any material impact on the funded status of the plan.

Long-Term Disability Insurance

Effective October 15, 1992, the Group Insurance Board established the LTDI Program as an alternative to the long-term disability coverage provided through the WRS. The Employee Trust Funds Board purchases disability insurance coverage from the Group Insurance Board for WRS participants.

Participants who were covered by the WRS prior to October 15, 1992, have the option to select disability benefits from LTDI or WRS at the time of disability. New WRS participants on or after October 15, 1992, are eligible only for LTDI disability benefits.

The LTDI benefit replaces 40% of the disabled participant's final average earnings until normal retirement age, or a minimum of five years. It also provides for additional annual contributions to the participant's WRS account equal to 7% of the participant's final average earnings. At normal retirement age, or after a minimum of five years of LTDI benefits, the LTDI benefit terminates and the participant is eligible for a WRS retirement benefit.

The WRS pays actuarially determined premiums to the Group Insurance Board for LTDI coverage. Beginning January 1, 1999, premiums were suspended in recognition of the high funding level in the program.

Public Entity Risk Pool Accounting Policies

Basis of Accounting: All public entity risk pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

Valuation of Investments: Assets of the Health Insurance Fund are invested in the State Investment Fund, and are valued at fair value. Assets of the Income Continuation Insurance, Duty Disability and Long-Term Disability Insurance Funds are invested in the Fixed Retirement Investment Trust, and are valued at fair value.

Unpaid Claims Liabilities: The fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. These liabilities are discounted using an interest rate of 8% for the Income Continuation Insurance, Long-Term Disability Insurance and the Duty Disability Programs. The liabilities for the Income Continuation Insurance, Duty Disability, Health Insurance and Long-Term Disability Insurance Programs were determined by actuarial methods. Face value of the liability for these programs is not available.

Administrative Expenses: All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Claim adjustment expenses are also immaterial.

Reinsurance: Health insurance plans provided by health maintenance organizations and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

Risk Transfer: Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of a fund were exhausted, participating employers would not be responsible for the fund's liabilities.

Premium Setting: Premiums are established by the Group Insurance Board (Health Insurance, Income Continuation Insurance and Long-Term Disability Insurance) and the ETF Board (Duty Disability) in consultation with actuaries.

Statutory Authority: All programs are operated under the authority of Chapter 40, Wisconsin Statutes.

Unpaid Claims Liabilities

Each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities (in millions $) for each fund during the past year. The amounts for Health Insurance include only the portion of the program that is self-insured.

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-Term Disability Insurance	
	2003	2002	2003	2002	2003	2002	2003	2002
Unpaid claims at beginning of the calendar year	$8.1	$ 12.8	$58.2	$57.0	$320.8	$ 318.3	$43.8	$ 34.3
Incurred claims:								
Provision for insured events of the current calendar year	73.2	70.5	23.4	17.1	41.0	30.7	15.9	11.7
Changes in provision for insured events of prior calendar years	(1.1)	(5.4)	(13.2)	(2.8)	0.4	(6.6)	1.3	3.0
Total incurred claims	72.1	65.1	10.2	14.3	41.4	24.1	17.2	14.7
Payments:								
Claims attributable to insured events of the current calendar year	65.1	62.5	4.5	3.5	0.3	0.2	0.3	0.0
Claims attributable to insured events of prior calendar years	6.8	7.3	7.0	9.6	22.7	21.4	6.7	5.2
Total payments	71.9	69.8	11.5	13.1	23.0	21.6	7.0	5.2
Total unpaid claims at end of the calendar year	**$8.3**	**$ 8.1**	**$56.9**	**$58.2**	**$339.2**	**$ 320.8**	**$54.0**	**$ 43.8**

9. Milwaukee Retirement System

The Milwaukee Retirement System (MRS), consisting of the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, is reported as an investment trust fund. The MRS provides assets to the Department for investing in the Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT), described in Note 1 Investments. The FRIT and the VRIT are managed by the State of Wisconsin Investment Board (SWIB) with oversight by a Board of Trustees as authorized in Wisconsin Statute §25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company. Participation of the MRS in the FRIT and the VRIT is described in the ETF administrative code, chapter 10.12. Monthly, the Department distributes pro-rata shares of total FRIT and total VRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per ETF Administrative Code Chapter 10.12(2).

Neither state statute, a legal provision, nor a legally binding guarantee exists to support the value of shares.

At December 31, 2003, the FRIT and the VRIT held nonnegotiable short-term certificates of deposit. The fair value of these certificates of deposit was $39.9 million, all of which was uncollateralized.

At December 31, 2003, the FRIT and the VRIT held $62,642.4 million of investments of which $1,742.9 million are classified as cash equivalents. In addition, the FRIT and the VRIT held $3,504.7 million of securities lending collateral.

Information on investments of the FRIT and the VRIT Trust at December 31, 2003, categorized in accordance with the level of risk requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, and summary information by investment classification in accordance with GASB Statement No. 31 for the FRIT and the VRIT at December 31, 2003, is presented in Note 3.

Significant financial data for the FRIT and the VRIT for the year ended December 31, 2003, is presented on the next page (in thousands $).

FIXED AND VARIABLE RETIREMENT INVESTMENT TRUSTS
CONDENSED STATEMENTS OF NET ASSETS
December 31, 2003

Assets:	**Fixed**	**Variable**	**Combined**
Cash & Cash Equivalents	$ 1,640,484	102,449	1,742,932
Securities Lending Collateral	3,344,598	$ 160,076	$ 3,504,674
Prepaid Items	1,290	0	1,290
Due From Other Funds	43	4	47
Investment Receivables	424,231	48,313	472,544
Investments, at fair value	55,076,169	5,823,276	60,899,446
Total Assets	$ 60,486,814	$ 6,134,117	$ 66,620,931
Liabilities:			
Securities Lending Collateral Liability	3,344,598	160,076	3,504,674
Due To Other Funds	0	2	2
Investment Payables	242,781	43,983	286,764
Total Liabilities	3,587,379	204,060	3,791,439
Net Assets Held in Trust for:			
Internal Investment Pool Participants	56,857,011	5,892,855	62,749,866
Milwaukee Retirement Systems	42,424	37,202	79,626
Total	$ 56,899,435	$ 5,930,057	$ 62,829,492

FIXED AND VARIABLE RETIREMENT INVESTMENT TRUSTS
CONDENSED STATEMENTS OF CHANGES IN NET ASSETS
For the Year Ended December 31, 2003

	Fixed	Variable	Combined
Additions:			
Net Appreciation (Depreciation) in			
Fair Value of Investments	$10,090,447	$1,423,730	$11,514,177
Interest	594,271	1,195	595,466
Dividends	275,015	43,153	318,168
Real Estate Income	0	0	0
Securities Lending Income	38,732	1,861	40,594
Other	100,250	0	100,250
Total Additions	$ 11,098,716	$ 1,469,939	$ 12,568,654
Deductions:			
Investment Expense	143,837	9,110	152,948
Securities Lending Rebates and Fees	29,909	1,070	30,979
Net Withdrawals by Pool Participants	288,516	196,053	484,569
Total Deductions	462,263	206,233	668,495
Net Increase (Decrease)	10,636,453	1,263,706	11,900,159
Net Assets Held in Trust for Pool Participants			
Beginning of Year	46,262,982	4,666,351	50,929,333
End of Year	$ 56,899,435	$ 5,930,057	$ 62,829,492

Required Supplementary Information
Public Entity Risk Pools

Claims Development Information

The tables on the following pages illustrate how the funds' earned revenues and investment income compare to related costs of loss and other expenses assumed by the fund as of the end of each of the last ten years. The rows of the tables are defined as follows:

1. Net Earned Required Contribution and Investment Revenues. Shows the total of each calendar year's earned contribution revenues and investment revenues.
2. Unallocated Expenses. Shows each calendar year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.
3. Estimated Incurred Claims as of the End of the Policy Year. Shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. Paid Cumulative as of Year End. Shows the cumulative amounts paid as of the end of successive years for each policy year.
5. Reestimated Incurred Claims. Shows how each policy year's incurred claims increased or decreased as of the end of successive policy years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
6. Increase/Decrease in Estimated Incurred Claims from End of Policy Year. Compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

Required Supplementary Information
Public Entity Risk Pools
Health Insurance Claims Development Information
(in millions $)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Net earned required contribution and investment revenues	66.2	64.9	59.9	54.4	54.8	59.4	64.5	77.6	83.8	85.1
2. Unallocated expenses	2.7	2.4	2.7	2.7	2.9	3.6	3.7	4.8	3.9	5.7
3. Estimated incurred claims as of the end of the policy year	61.6	65.8	54.9	55.5	58.5	64.8	69.9	73.7	70.5	73.2
4. Paid (cumulative) as of:										
End of Policy Year	50.3	53.6	46.1	45.8	42.4	51.6	55.9	61.1	62.5	65.1
One Year Later	62.2	64.3	55.1	53.8	55.0	62.6	64.4	68.2	69.3	
Two Years Later	62.5	64.6	55.4	54.0	55.4	62.7	64.6	68.3		
Three Years Later	62.5	64.6	55.4	54.0	55.4	62.7	64.6			
Four Years Later	62.5	64.6	55.4	54.0	55.4	62.7				
Five Years Later	62.5	64.6	55.4	54.0	55.4					
Six Years Later	62.5	64.6	55.4	54.0						
Seven Years Later	62.5	64.6	55.4							
Eight Years Later	62.5	64.6								
Nine Years Later	62.5									
5. Reestimated incurred claims:										
End of Policy Year	61.6	65.8	54.9	55.5	58.5	64.8	69.9	73.7	70.5	73.2
One Year Later	62.2	64.5	54.3	54.1	55.3	62.8	64.7	68.3	69.5	
Two Years Later	62.5	64.6	55.4	54.0	55.4	62.7	64.6	68.3		
Three Years Later	62.5	64.6	55.4	54.0	55.4	62.7	64.6			
Four Years Later	62.5	64.6	55.4	54.0	55.4	62.7				
Five Years Later	62.5	64.6	55.4	54.0	55.4					
Six Years Later	62.5	64.6	55.4	54.0						
Seven Years Later	62.5	64.6	55.4							
Eight Years Later	62.5	64.6								
Nine Years Later	62.5									
6. Increase (decrease) in estimated incurred claims from end of policy year	0.9	(1.2)	0.5	(1.5)	(3.1)	(2.1)	(5.3)	(5.4)	(1.0)	0.0

Required Supplementary Information
Public Entity Risk Pools
Income Continuation Insurance Claims Development Information
(in millions $)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Net earned required contribution and investment revenues	0.1	11.8	11.4	17.0	17.0	19.5	8.2	7.9	3.7	25.5
2. Unallocated expenses	0.7	0.8	0.9	1.1	1.2	1.5	0.8	1.9	1.7	1.9
3. Estimated incurred claims as of the end of the policy year	17.2	19.4	18.7	19.1	19.3	17.3	21.4	28.9	17.1	23.4
4. Paid (cumulative) as of:										
End of Policy Year	1.9	2.7	2.4	2.5	2.5	2.4	3.2	5.5	3.5	4.5
One Year Later	3.9	5.1	4.6	5.4	4.5	4.6	6.4	10.0	7.7	
Two Years Later	4.5	5.8	5.2	5.7	4.8	5.3	8.0	12.1		
Three Years Later	4.9	6.2	5.5	6.1	5.2	6.0	9.0			
Four Years Later	5.1	6.4	5.8	6.5	5.5	6.6				
Five Years Later	5.3	6.7	6.1	6.8	5.8					
Six Years Later	5.6	7.1	6.4	7.1						
Seven Years Later	5.8	7.4	6.8							
Eight Years Later	6.1	7.8								
Nine Years Later	6.4									
5. Reestimated incurred claims:										
End of Policy Year	17.2	19.4	18.7	19.1	19.3	17.3	21.4	28.9	17.1	23.4
One Year Later	10.9	12.8	12.1	12.1	9.8	9.8	18.0	20.4	15.8	
Two Years Later	8.8	10.9	9.3	9.3	8.2	10.2	16.3	18.9		
Three Years Later	7.9	10.0	9.9	8.7	7.4	11.5	14.3			
Four Years Later	7.3	9.5	9.2	8.3	12.4	10.1				
Five Years Later	8.0	9.9	8.2	8.7	7.4					
Six Years Later	7.7	9.3	8.0	8.8						
Seven Years Later	7.5	9.2	8.7							
Eight Years Later	8.0	9.4								
Nine Years Later	7.7									
6. Increase (decrease) in estimated incurred claims from end of policy year	(9.5)	(10.0)	(10.0)	(10.3)	(11.9)	(7.2)	(7.1)	(10.0)	(1.3)	0.0

Required Supplementary Information
Public Entity Risk Pools
Duty Disability Insurance Claims Development Information
(in millions $)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Net earned required contribution and investment revenues	16.2	22.0	23.7	27.0	32.8	38.9	31.3	32.4	25.8	68.3
2. Unallocated expenses	0.2	0.2	0.4	0.1	0.2	0.6	0.2	0.3	0.4	0.1
3. Estimated incurred claims as of the end of the policy year	5.1	4.8	15.5	14.1	16.9	21.7	27.6	35.4	30.7	41.0
4. Paid (cumulative) as of:										
End of Policy Year	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.3
One Year Later	0.4	1.1	0.4	0.5	0.6	0.8	0.8	1.0	0.8	
Two Years Later	1.4	2.5	0.8	1.1	1.2	1.6	1.6	1.8		
Three Years Later	2.5	4.0	1.4	1.7	1.9	2.4	2.5			
Four Years Later	3.7	5.6	2.0	2.3	2.6	3.3				
Five Years Later	5.0	7.2	2.5	2.9	3.4					
Six Years Later	6.2	8.9	3.2	3.5						
Seven Years Later	7.5	10.7	3.9							
Eight Years Later	8.8	12.7								
Nine Years Later	10.1									
5. Reestimated incurred claims:										
End of Policy Year	5.1	4.8	15.5	14.1	16.9	21.7	27.6	35.4	30.7	41.0
One Year Later	6.1	8.8	5.8	8.2	9.5	7.6	6.2	9.2	11.5	
Two Years Later	10.2	10.5	8.3	12.6	16.6	13.5	8.5	11.7		
Three Years Later	12.9	13.6	9.8	14.5	18.9	15.7	9.9			
Four Years Later	14.5	17.7	11.5	15.0	19.6	18.1				
Five Years Later	17.9	19.6	13.0	15.1	20.9					
Six Years Later	19.4	22.1	13.5	15.7						
Seven Years Later	21.4	23.2	14.2							
Eight Years Later	23.0	25.6								
Nine Years Later	24.3									
6. Increase (decrease) in estimated incurred claims from end of policy year	19.2	20.8	(1.3)	1.6	4.0	(3.6)	(17.7)	(23.7)	(19.2)	0.0

Required Supplementary Information
Public Entity Risk Pools
Long-Term Disability Insurance Claims Development Information
(in millions $)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Net earned required contribution and investment revenues	30.8	47.8	36.1	38.9	37.7	36.1	(3.0)	(6.9)	(22.9)	52.5
2. Unallocated expenses	0.2	0.2	0.2	0.2	0.4	0.6	0.3	1.0	0.8	0.7
3. Estimated incurred claims and expense, as of the end of the policy year	3.3	5.4	4.5	4.5	7.7	9.1	9.4	10.0	11.7	15.9
4. Paid (cumulative) as of:										
End of Policy Year	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.5	0.0	0.3
One Year Later	0.4	0.5	0.7	0.4	0.8	0.6	0.8	1.0	1.1	
Two Years Later	0.8	0.9	1.4	0.9	1.6	1.3	1.5	2.0		
Three Years Later	1.2	1.3	2.0	1.4	2.1	2.3	2.6			
Four Years Later	1.6	1.6	2.5	1.8	2.9	3.2				
Five Years Later	2.0	1.9	3.0	2.3	3.6					
Six Years Later	2.3	2.2	3.7	2.7						
Seven Years Later	2.6	2.5	4.2							
Eight Years Later	2.9	2.8								
Nine Years Later	3.1									
5. Reestimated incurred claims and expense:										
End of Policy Year	3.3	5.4	4.5	4.5	7.7	9.1	9.4	10.0	11.7	15.9
One Year Later	2.5	3.4	4.3	2.5	5.1	6.1	4.9	8.7	8.4	
Two Years Later	3.2	3.9	5.4	3.6	6.8	8.2	7.2	8.3		
Three Years Later	3.7	4.1	6.1	3.7	6.0	7.8	8.5			
Four Years Later	4.1	4.1	5.7	4.2	8.0	9.9				
Five Years Later	4.3	3.7	5.9	4.2	7.5					
Six Years Later	4.5	4.7	6.5	4.9						
Seven Years Later	4.5	4.0	6.5							
Eight Years Later	4.1	4.5								
Nine Years Later	4.2									
6. Increase (decrease) in estimated incurred claims from end of policy year	0.9	(0.9)	2.0	0.4	(0.2)	0.8	(0.9)	(1.7)	(3.3)	0.0

Wisconsin Retirement System Notes to Required Supplementary Information
The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	December 31, 2003	
Actuarial Cost Method:	Frozen Entry Age	
Amortization Method:	Level Percent – Closed Amortization Period	
Remaining Amortization Period:	26 Years (ending 12/31/2029)	
Asset Valuation Method:	Five Year Smoothed Market	
Actuarial Assumptions:		
	Investment Rate of Return	7.8%
	Projected Salary Increases*	4.1% to 9.9%
	** Includes Inflation at 4.1%*	
Cost of Living Adjustments	2.67%	

Wisconsin Retirement System
Schedule of Funding Progress
(in millions $)

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded[1] AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 1994	26,954.3	29,012.1	2,057.8	92.9%	7,135.6	28.8%
December 31, 1995	30,246.2	32,348.9	2,102.7	93.5%	7,454.3	28.2%
December 31, 1996	33,962.6	36,097.0	2,134.4	94.1%	7,721.6	27.6%
December 31, 1997	38,584.6	40,762.9	2,178.3	94.7%	8,084.6	26.9%
December 31, 1998	43,390.5	45,617.1	2,226.6	95.1%	8,481.1	26.3%
December 31, 1999	49,403.7	51,549.5	2,145.8	95.8%	8,826.0	24.3%
December 31, 2000	51,824.6	53,993.6	2,169.0	96.0%	9,322.5	23.3%
December 31, 2001	58,024.3	60,134.7	2,110.4	96.5%	9,917.7	21.3%
December 31, 2002	57,861.9	59,618.8	1,756.9	97.1%	10,126.6	17.3%
December 31, 2003	62,685.3	63,211.7	526.4	99.2%	10,502.4	5.0%

Wisconsin Retirement System
Schedule of Employer Contributions
(in millions $)

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
1994	385.9	100.0%
1995	402.6	100.0%
1996	435.3	100.0%
1997	445.9	100.0%
1998	449.6	100.0%
1999	435.2	100.0%
2000	422.1	96.3%
2001	412.2	99.6%
2002	426.9	99.8%
2003	462.7	100.0%

(1) The Unfunded AAL in this schedule is the actuarially determined balance and may not agree with the Prior Service Contributions Receivable reported on the Statement of Net Assets because of differences in the way payments received after year end are treated.